St. Joe Minerals Corporation Annual Report 1972

St. Joe Minerals Corporation is an expanding natural resources and energy company. Sales totaled more than $200 million in 1972. The company's basic strengths come from zinc and lead and iron ore pellets—but through an intensified acquisition program, world-wide exploration efforts and research, St. Joe is diversifying into the production of oil and gas, as well as other vital minerals. These resources have become increasingly important in meeting the growing energy crisis. In 1972, St. Joe's operating earnings and sales rose over 26%.

Cover

This galena crystal—which is 86% lead—comes from the rich ore body in St. Joe's Fletcher mine in Missouri's New Lead Belt. St. Joe has four prime locations in this area, where 60% of the nation's lead is mined. Fletcher, a completely trackless facility, is the company's most productive and efficient mine.

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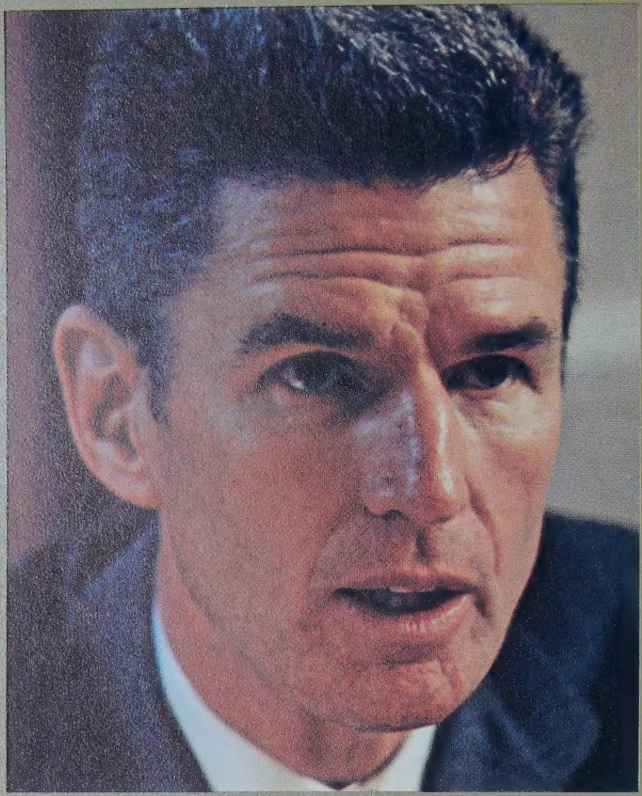
Financial Highlights	1972	1971	% Change
Net sales*	**$205,042,000**	$162,214,000	+26.4%
Income taxes (including taxes on extraordinary items)	**$ 11,627,000**	$ 8,313,000	+39.9%
Income before extraordinary items	**$ 24,770,000**	$ 19,576,000	+26.5%
Extraordinary items	**$ 1,229,000**	—	—
Net income	**$ 25,999,000**	$ 19,576,000	+32.8%
Dividends	**$ 12,732,000**	$ 13,743,000	− 7.4%
Shares of common stock outstanding December 31	**8,488,953**	8,485,383	—
Income per share before extraordinary items	**$ 2.92**	$ 2.32	+25.9%
Extraordinary items per share	**$ 0.14**	—	—
Net income per share	**$ 3.06**	$ 2.32	+31.9%
Dividends per share	**$ 1.50**	$1.625	− 7.7%
Number of employees (U.S.)	**3,963**	4,106	− 3.5%
Number of shareholders	**22,892**	24,844	− 7.9%
Shareholders' equity (book value)	**$184,638,000**	$171,299,000	+ 7.8%
Shareholders' equity per share	**$21.75**	$20.19	+ 7.7%

*Excludes operations sold in 1972



Lawrason Riggs III, 58, Chairman of the Board. Joined St. Joe in 1939.

To the Shareholders:

St. Joe's earnings rose sharply in 1972, reversing two years of declining earnings. Income before extraordinary items was $24,770,000, or $2.92 per share, a 27% improvement over 1971 figures of $19,576,000, or $2.32 per share. Sales rose to $205,042,000, or 26% more than last year's figure of $162,214,000. Both sales figures were restated to exclude Quemetco, Inc.

In addition, St. Joe registered extraordinary after-tax income of $1,229,000, or 14¢ per share, from the sale of Quemetco and sales of assets (minus expenses) relating to the shutdown of the Federal mine in the Old Lead Belt of Missouri. Dividends during 1972 continued at the annual rate of $1.50 per share established the previous year.

Earnings growth resulted from several factors, including stronger prices, changes in the zinc product mix and diversification of the product base. Average zinc prices rose from 16¢ per pound to nearly 18¢, while average lead prices increased from less than 14¢ per pound to just over 15¢. These changes contributed the major portion of the improvement in earnings.

A 40% increase in zinc oxide sales meant higher overall zinc profit margins. Sales of cadmium, a by-product of the zinc smelter, increased by one million pounds, and its price went up from $2.00 to $3.00 per pound by year-end.

CanDel Oil Ltd., a Canadian oil and gas production company acquired in May, added about 7¢ a share to St. Joe's net profit after related interest charges and amortization of goodwill. Foreign dividends totaled $4.2 million, $250,000 more than received in 1971.

U.S. consumption of zinc, principally used in automotive and appliance die castings and galvanized steel, rose 14% in 1972, and 1973 requirements are substantially higher than domestic production capabilities. Zinc offers a strong growth opportunity for St. Joe, and the company is increasing its ability to meet the demand and to profit from it. We expect to increase output from the Balmat-Edwards Division from 63,500 tons of zinc in 1972 to about 100,000 tons in 1973, making the company less dependent on purchased concentrates. The capacity of the Josephtown smelter also will be enlarged by about 15%, or 40,000 tons, over the next few years.

During 1972, the U.S. zinc industry was hampered by Phase II price controls which kept domestic prices 1¢ to 1½¢ per pound lower than the U.S. prices of foreign producers, despite two price increases. Foreign smelters now supply over 40% of the 1,440,000 tons that U.S. manufacturers consume, and in the past 30 years all new smelters have been built abroad. In January 1973, St. Joe raised its Prime Western zinc price to 19.25¢ per pound. The change is intended to comply with the new Phase III regulations, and the new price is still below the world market price.

U.S. lead demand grew about 3% in 1972. St. Joe's lead sales are now limited only by its smelting capacity. Production of our lead at the Herculaneum, Missouri smelter decreased by 14,000 tons due to a two-week strike which ended in April with the signing of a three-year contract. A three-year contract also was signed in the Southeast Missouri Division, the principal lead mining area, with no halt in production.

With the closing of the old Federal mine and the sale of the Lead Belt Water Company serving that area, St. Joe has progressed with its plans to move the Southeast Missouri Division to new headquarters in Viburnum, Missouri, in the heart of the New Lead Belt. The new Brushy Creek lead mine in Missouri is scheduled to begin production in 1973. By 1974, it will have significantly lower unit production costs than the old mine being replaced.

Meramec Mining Company, our iron ore and pelletizing joint venture with Bethlehem Steel, showed slightly higher production and profitability last year. This underground mine is approaching its capacity of 2-million short tons of high-quality pellets per year. A recent price increase of 70¢ per ton will contribute to 1973 earnings.

The trend towards higher administration and selling expenses continued throughout the year for reasons commented on in the second quarter report. These included acquisition costs, strengthening of our marketing and sales organization, the inclusion of CanDel overhead and a writeoff of $348,000 in goodwill for eight months.

St. Joe made an important diversification into oil and gas with the acquisition of 93.6% of CanDel Oil Ltd. from Sohio Petroleum Company for $47 million. Its main fields are in Saskatchewan, Alberta and British Columbia where it has reserves of about 21-million barrels of oil and gas liquids and 286-billion cubic feet of natural gas.

CanDel reported earnings in Canadian dollars of $3 million or 72¢ per share in 1972, compared to $3.2 million or 77¢ per share in 1971. It sold 2.1-million barrels of oil and gas liquids and 24.7-billion cubic feet of gas, approximately the same as in 1971.

CanDel is participating in an expanded exploration program, amounting to about $12 million annually, and its share is paid for entirely from its own cash flow. St. Joe also is participating in worldwide oil and gas exploration which will require an annual investment by the company of $4 million to $5 million per year beginning in 1973.

A second, much smaller acquisition is now being negotiated for the purchase of 53% of the stock of Energy Research Corporation, which works in the promising field of high-technology energy conversion and storage.

Capital expenditures for St. Joe in 1972 totaled $31.0 million, compared with $21.2 million in 1971. 1972 expenditures included $6.5 million for environmental controls at the two smelters, $2.4 million for CanDel Oil Ltd. and $8.6 million for Quemetco, which was subsequently sold. In December, a $22.5 million issue of tax-free industrial revenue bonds at 5.6% interest was sold to finance environmental improvements over the next five years at the Josephtown zinc smelter. We hope to finance 1973 environmental expenditures at the Herculaneum, Missouri, lead smelter through a similar bond issue. Capital expenditures not related to environmental controls are expected to continue to decrease in 1973.

The sale of Quemetco to RSR Corporation for $22 million—$20 million of the amount in cash—followed a Federal Trade Commission complaint against St. Joe alleging certain anti-trust violations. St. Joe believed that the complaint was unjustified but felt that it was in the best interest of the shareholders to sell at a profit. RSR Corporation has recently filed a suit seeking approximately $7 million in downward adjustments in the purchase price, damages for alleged breaches of representations and warranties, and exemplary damages. St. Joe intends to defend against this suit vigorously.

Our Board of Trustees and management was strengthened with several additions. Smiley Raborn, Jr., President and Chief Executive Officer of CanDel Oil Ltd., was elected a member of the Board, as was William R. Grant, President of Smith, Barney & Co., Inc. L. Chase Ritts, Jr., formerly President of Union Carbide Oil Corporation, was elected Vice President-Petroleum. Fil E. Van Voris was elected Vice President-Sales, and Robert W. Peckham was named the Director of Corporate Communications.

This year's annual report features the top-management people who are guiding St. Joe's many activities. This group is supported by St. Joe's operating personnel—those skilled geologists, metallurgists, research personnel, miners, engineers, salesmen and managers—whose contributions form the backbone of our company.

John C. Duncan, 52, President and Chief Executive Officer. Came to St. Joe in 1970. Formerly executive vice president, W. R. Grace & Co.

We look forward to another good year in 1973, as the markets for all of our products remain strong and the economy continues to improve. In light of the United States' increasing needs for materials and energy, St. Joe has an excellent opportunity to expand its ability to supply vital natural resources, including metals, oil and gas, as well as to develop promising new technologies for the benefit of the shareholders.

Lawrason Riggs III
Lawrason Riggs III
Chairman

J C Duncan
John C. Duncan
President

February 28, 1973

St. Joe: A View of Management

Strong decentralized management is a basic principle of St. Joe. The corporate staff supports divisional managers with advanced financial controls and provides long-range developmental and planning direction. This report introduces the members of the St. Joe corporate management team. On these pages, they review the year's results and discuss future growth plans.

D. Broward Craig
Executive Vice President

Q. Would you define the company's growth strategy?
A. St. Joe's growth strategy is to build on its basic strengths in zinc and lead, which provide steady cash flow and asset growth. With this foundation, we are entering some of the rapidly growing markets related to natural resources and energy. The ultimate objective, of course, is to increase the rate at which our solid earnings base and balance sheet strength are translated into higher and superior quality earnings.

Q. What methods are you using to accomplish these objectives?
A. Mainly increased exploration, research efforts in fields of greatest potential, and an active search for advantageous acquisitions.

Q. Can we look for any commercial results from the research effort?
A. Yes. It now looks as though calcium-lead alloys, pioneered by St. Joe, will be used increasingly in auto batteries. The calcium-lead alloy battery, which is maintenance-free, appears to be approaching commercial status and designs are being extensively tested by a number of leading battery companies as either original or optional equipment. This battery is an important development, both in battery technology and in the marketing of lead.

Q. Is there other significant research being carried on at St. Joe?
A. We are working in four other basic areas. In zinc metal, there are interesting developments in making alloys with real structural strength—raising the possibility of completely new markets. Zinc oxide research continues to upgrade product characteristics and permit a greater proportion of premium price sales. Developments in process technology have resulted in a new program to find ways of radically reducing the cost of making metal out of sulphide ores such as ours.This is a long-range effort that ultimately could have a significant impact on earnings. Finally, we are negotiating to acquire control of a company carrying on impressive research and development work in several areas of energy conversion and storage. The company, Energy Research Corporation (ERC), located in Bethel, Connecticut, is engaged in research and development of alkaline batteries, fuel cells, thermionic energy transfer, heat-resistant materials, and related projects.

Q. This brings us to your acquisition policy. Could you elaborate on St. Joe's specific areas of interest?
A. The ERC acquisition fits into a high technology area for which St. Joe has a natural affinity but limited skills and in which there should be strong growth. Our entry into the oil and gas field through buying 93.6% of CanDel Oil Ltd. was another logical development into an area of greater potential market growth than is expected for lead and zinc. Other possibilities include copper or nickel mining, metals fabrication and engineering services. Despite the well-publicized difficulties facing the industry, we are definitely interested in acquiring a position in coal.

Q. With its relatively low price/earnings ratio and high dividend, does St. Joe have to make all acquisitions with cash or notes?
A. We think not. The Quemetco and CanDel acquisitions were made on cash or cash-and-notes bases, but use of St. Joe stock is certainly possible. The governing criterion, of course, is the benefit to our shareholders. We have seen

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D. Broward Craig, 44, Executive Vice President. Began working for St. Joe in 1964. Formerly an associate with Debevoise, Plimpton, Lyons & Gates.

a number of situations in which the use of St. Joe stock would be both beneficial and practical.

Joseph G. Sevick
Vice President-Smelting

Q. What production levels did St. Joe reach in 1972?
A. We produced 208,000 tons of lead compared to 222,000 tons the preceding year. Operating rates were about the same, but there was a two-week work stoppage at the Herculaneum smelter. In zinc, the production was almost equal to 1971 at 236,000 tons. It would have been higher, but the installation of a new sulphuric acid recovery plant at the zinc smelter was the limiting factor.

Q. What do you anticipate for next year?
A. Lead production will remain about the same because of environmental improvements being made at the Herculaneum smelter. Zinc production should increase significantly.

Q. Zinc oxide seems to be in heavy demand with St. Joe's shipments increasing 40% in 1972. What is causing this?
A. Consumption in the rubber and paint industries was extremely strong last year. In addition, we have high-quality grades of French process zinc oxides and photoconductive oxides, which are used in coating paper for office copy machines.

Q. What kind of iron pellet production did you have last year at Meramec?
A. Total production, half of which belongs to us, was 1,881,000 short tons, a little higher than the year before. At the beginning of 1972, we were mining lower-grade ore, but later in the year, the grade improved. Mined tonnage also was increased by introducing additional mobile equipment for trackless mining, which cut both the number of employees and operating costs.

We also market by-products of the iron ore operation, which is a small, but profitable business, and demonstrates one way of reclaiming waste materials that could be pollutants. These include magnetite concentrate used in coal washing; apatite used in making fertilizer; and high-grade iron oxide which goes to the ceramic industry for computer and television magnets.

Q. Some mining companies are having trouble maintaining profitable smelters. What is St. Joe's secret?
A. We have never let our smelters run down or become out-of-date, and that has paid off. Continual modernization and expansion of the company's smelter facilities has enabled St. Joe to maintain its strength in lead and zinc production.

Q. How does St. Joe measure up in environmental control problems?
A. St. Joe has a good record as we have always made an effort to control emissions in air and water through up-to-date technology and equipment. Our smelters still have problems, especially in sulphur and particulate emissions. We feel the states are sometimes not being particularly realistic in the standards they set.

Q. Give an example.
A. The Pennsylvania guidelines require us to recover in excess of 98% of the input sulphur based on a formula relating to size and industry. The Environmental Protection Agency guideline is a 90% recovery, and we are proud that over the years our recovery

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Joseph G. Sevick, 48, Vice President—Smelting. In 1961 transferred from St. Joe's Zinc Smelting Division after 12 years in research and operations.

has been better than that. Now we are faced with a $10-million investment to meet Pennsylvania regulations. We have filed a civil suit against the EPA in Pennsylvania because it did not indicate why it had accepted the unreasonable Pennsylvania regulations.

Q. Do you have a timetable for meeting all these requirements?
A. If our research is successful in 1973-1974, the zinc smelter may be able to install the necessary process control by 1977.

Q. What kind of cost is involved?
A. The $22.5-million Beaver County industrial bond issue should cover most of the zinc smelter's environmental expenditures over the next five years for the control of water emissions and in-plant hygiene as well as sulphur dioxide and particulate emissions from the stack. We are working with Missouri authorities for a similar type of bond issue to cover the capital cost for environmental expenditures at the lead smelter. At the present time it appears as if that cost will be significantly lower than the figure for the zinc smelter. However, with regulations still in flux, the final capital cost for these facilities remains uncertain.

Peter B. Nalle
Vice President-Mining

Q. How many tons of recoverable lead and zinc came from domestic St. Joe mines last year?
A. The mines produced 222,600 tons of lead and 75,700 tons of zinc, about the same as in 1971. We expect zinc production from Balmat-Edwards will be up about 50% in 1973 because of the new expanded zinc mine in northern New York. Lead production will be lower because of the shutdown of the Federal mine and the continuing development of our new Brushy Creek property.

Q. When is the Brushy Creek lead mine and mill coming on stream?
A. Brushy Creek will start milling ore early in 1973. Shipping of concentrates is scheduled to start in May and to reach full capacity before year-end.

Q. What will its impact be?
A. The Federal mine it replaced in the Old Lead Belt had started dropping off in production. Brushy Creek will produce about 50,000 tons of lead annually compared to 38,000 from Federal in its last full year of production. And it will add 1,200 tons of copper concentrates and 7,200 tons of zinc concentrates that were no longer coming from the old mine in its last stages.

Q. Are other efficiencies associated with this new mine?
A. Certainly. We're substituting a relatively low-cost mine for a high-cost mine, and the savings in round numbers will be 4¢ per pound of lead at full production. Using the 38,000-ton production levels of Federal, that represents $3 million annually. One important insight into the efficiencies that have taken place at the Southeast Missouri Division is that, in the last ten years, total employment has been reduced from 1,930 to 1,175 employees, with production up by 122% during the same period.

Q. St. Joe also has been completing a large modernization and expansion program at the Balmat-Edwards zinc mine. What is its status?
A. Many of the facilities are finished, and we are now connected to the new ore body in several locations. We expect to be approaching full capacity in late 1973.

By the end of this year, St. Joe will have some of the most modern and efficient underground mining facilities in the United States or

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Peter B. Nalle, 49, Vice President—Mining. Joined St. Joe in 1969. Previously director of mining and manufacturing, American Cement Corp.

anywhere in the world.

Q. What does the completion of this project mean to St. Joe?
A. Including zinc production from Southeast Missouri, we should be able to increase our amount of captive zinc concentrates by 60%. Since we would then have to purchase less zinc concentrates to supply our smelter, the profit margin for zinc should improve substantially.

Q. What is the cost for these capital expenditures in your domestic mining facilities?
A. About $19 million will have been invested in Brushy Creek, and $28 million in Balmat-Edwards.

Q. Exploration is obviously important to St. Joe's future. What are you trying to achieve in exploration?
A. We see ourselves as a basic natural resources company, and we are actively looking for natural resources in the U.S., Canada, and other parts of the world. We have a more vigorous effort going on outside the U.S. at present than we have ever had before. Zinc is of a higher priority than lead, because our Missouri lead reserves are adequate.

Q. Where is St. Joe looking in the U.S.?
A. In the Balmat-Edwards geological formation in northern New York state, in Kentucky, and also in the Western states.

Q. Where else are exploration projects underway?
A. In Australia, Canada and South America.

Q. Has anything reached the development stage?
A. Yes, an important one is the Woodlawn joint venture with Phelps Dodge in Australia. Drilling completed during 1972 indicates that approximately 10 million tons of ore are mineable by open pit methods. This deposit contains about 1.5% copper, 3.0% lead, 7.5% zinc, and 1.5 ounces of silver per short ton. There are additional deep high-grade ore intersections discovered by further drilling. However, we are not presently able to correlate these intersections with the known ore body.

Q. What about the lawsuit in Australia contesting the joint venture's mining rights on the property?
A. In December 1972, Australia's highest court decided the case in favor of the joint venture and the Privy Council in England denied hearing the appeal by the complainant on February 28, 1973.

Q. Has this held up bringing the property into production?
A. Not really. Pilot plant metallurgical testing of bulk samples of the ore to determine milling procedure has gone ahead, as has a feasibility study and mining plan. I might add that metallurgical tests thus far have indicated that separations of the minerals in the ore are somewhat more difficult than we had at first anticipated. We expect to be able to bring this property into production in 1975.

Q. St. Joe also has an exploration office in Canada, doesn't it?
A. We reactivated an office there about a year ago, St. Joseph Exploration, Ltd. This facility is headed up by Dr. Robert Ginn with a staff of four geologists. Again, we are looking for base metals for St. Joe. We have half a dozen interesting prospects under study.

Q. How much are you spending on base metal explorations?
A. We spent $3.3 million last year, and we plan to spend at the same level in 1973. We've been building up to this level since 1965 when we

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L. Chase Ritts Jr., 52, Vice President—Petroleum. Began working for St. Joe in 1972. Formerly president of Union Carbide Petroleum Corp.

started shifting the emphasis from the New Lead Belt in Missouri to other areas throughout the world.

L. Chase Ritts, Jr.
Vice President-Petroleum

Q. Why has St. Joe entered the gas and oil business?
A. St. Joe decided some time ago to diversify and broaden its base of operations. Because the company was already in the natural resources business, it was logical to look to energy. Also, the ever-increasing demand for energy makes oil and gas a potentially attractive investment opportunity.

Q. But isn't this industry dominated by some of the world's largest corporations?
A. Not the exploration-production segment in which we are interested. There are a multitude of companies successfully participating, and they range in size from very small, privately owned companies to the majors.

Q. What exactly is St. Joe's position in this new field?
A. In 1972, we acquired 93.6% of the stock of CanDel Oil Ltd., a Canadian oil and gas production company. With the energy crunch upon us and making headlines every day, the acquisition of CanDel gives St. Joe an exciting new opportunity to participate in the field of energy resources.

Q. Who owns the rest of CanDel?
A. These shares are publicly traded in both the United States and Canada. At some future date, St. Joe plans to sell additional shares of CanDel in Canada and possibly also in the United States.

Q. What could be the contribution of CanDel to St. Joe's earnings?
A. If its exploration program is successful, and gas and oil prices continue to increase, we could expect a significant financial impact. It is entirely within the realm of possibility for a company like CanDel to double in size in five years.

Q. What is the scope of CanDel's exploration activities?
A. Until the last two years it had been mainly in the established areas in Alberta and British Columbia. Now, for the first time, it is looking at opportunities in Canada's frontiers and some of the overseas areas. Recently, CanDel has entered the Northwest Territories and the deep Alberta basin. Through two important joint-venture programs with U.S. partners, it has 20% interest in a maximum commitment of $50 million of exploration in the next five years. In 1973, CanDel will participate in approximately $12 million of exploration activities in Canada.

Q. Is CanDel's effort only in North America?
A. No, it's working to acquire positions in the North Sea and, hopefully, will be able to also participate in other promising areas such as the United States Gulf Coast and Indonesia.

Q. Is CanDel going to be St. Joe's only vehicle in these new petroleum ventures?
A. No. CanDel, after all, has limited resources. We're looking at ventures beyond CanDel's capabilities. During 1973, and the next few years, St. Joe itself plans to invest $4 to $5 million per year in joint venture groups exploring the more-attractive petroleum territories around the world.

Q. Do you think the price of oil and gas in Canada will go up in the near future?
A. This is already taking place. The price for Canadian oil was increased by 10¢ per barrel in

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Leroy K. Wheelock, 47, Vice President. Joined St. Joe in 1965. Formerly with Engineers Joint Council and C. Tennant & Sons.

November 1972 and another 20¢ per barrel in January 1973. These increases mean that about $550,000 should be added to earnings for CanDel and St. Joe during 1973. Substantial gas price increases also have been agreed to in certain cases in negotiations between Canadian gas producers and purchasers. In CanDel's case, this is particularly important because 75% of its gas contracts will be renegotiated in 1973. So far, on about 15% of its gas sales, it has received an inorease averaging 7¢ per thousand cubic feet which should add about $235,000 to their earnings for 1973.

Q. It all sounds very positive.
A. It's an area of great potential, but we must be cautious. In an undertaking like this, everyone is very anxious for immediate results. But it takes a continuous effort and investment in a number of promising areas over a period of time to offset the high risks of exploration. St. Joe must be able to select the right opportunities to get the optimum short and long-term results. I think we're moving in the right direction with the program already underway.

Leroy K. Wheelock
Vice President

Q. Could you define your areas of responsibility?
A. My responsibilities include overseeing Latin-American operations, and purchases and sales of concentrates and metallic smelter byproducts.

Q. Describe St. Joe's Latin-American investments.
A. The largest are two subsidiaries, Compañia Minera Aguilar in Argentina, and Compañia Minerales Santander in Peru. St. Joe has long had an important exploration involvement in South America. It has now paid off with a major copper deposit, Pachon, in the Andes on the western border of Argentina.

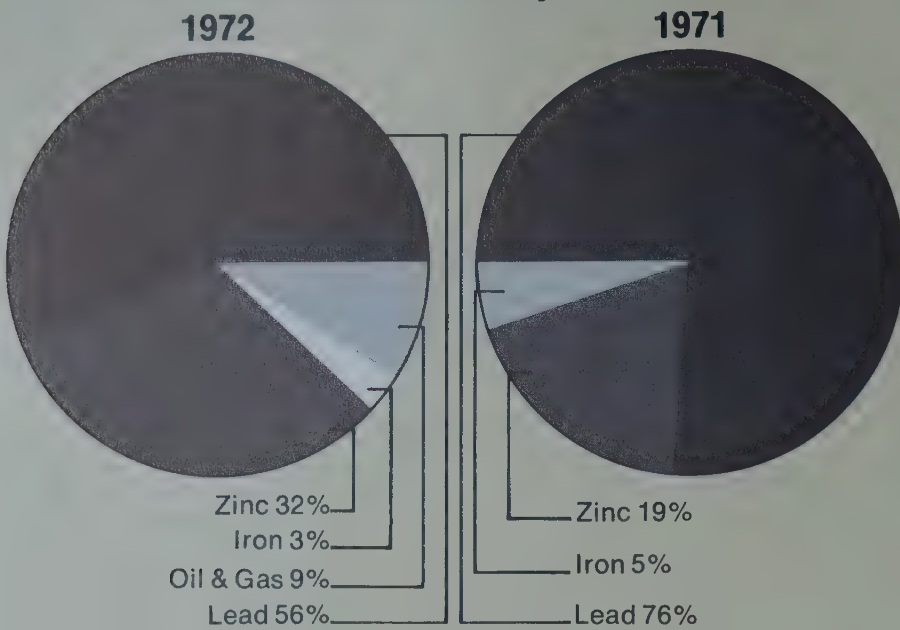
Q. How far along is this deposit?
A. Considerably more geological work will be required, including diamond drilling to determine copper grade and tonnage. Our preliminary findings suggest about 270 million tons containing about 0.7% copper with higher grade in the upper levels and more accessible parts of the ore body.

Q. What would the effect of this deposit be on St. Joe?
A. It would represent the first major copper operation for St. Joe and for Argentina. In terms of potential financial benefits, we would not expect any contribution for at least five or six years, assuming favorable development of the project.

Q. Can you describe Aguilar for us?
A. Aguilar, an Argentine corporation, operates a major lead-zinc-silver mine in the northern part of the country and is part owner of two zinc smelting and refining plants which supply the major part of the country's zinc and lead requirements. In 1971, it completed a major mine expansion program, almost doubling its former production capacity. The mine and mill were operated at the new full capacity the entire past year, in order to meet Argentina's expanding economy. For 1972, Aguilar produced 50,204 tons of lead concentrates and 96,208 tons of zinc concentrates, almost equal to the record 1971 production levels. It had not been anticipated that this production level would have been required for two or three years.

Q. Does this mean another expansion?
A. For the present, we are limited

St. Joe's Gross Profits by Product Line



by the proven mine reserves. We are continuing, however, to look for additional lead, zinc, and silver deposits. Aguilar's exploration program led to the Pachon copper discovery.

Q. What is Santander's position in Peru?
A. Santander operates a zinc-lead mine which is productive and reasonably profitable. A Peruvian government agency now markets the output, about 74,000 tons of zinc concentrates and 11,000 tons of lead concentrates in 1972.

Q. Are you able to get dividends from these subsidiaries?
A. Yes, we have been able to receive dividends on a regular basis. In Argentina, we purchase government dollar bonds with the remittable profits. These bonds have been fully honored by the government and have a ready dollar market. In Peru, there are no restrictions on the remission of funds if the balance sheet and profit-and-loss statements are accepted, although approvals are needed and sometimes delayed. Last year, the Peruvian government issued regulations which required Santander to distribute a certain proportion of profits, partly in cash and partly in equity, to an association of employees. Over a period of time, up to 50% of the equity is to be distributed in this form.

Q. Is St. Joe working in any other areas of South America?
A. We have just formed a Brazilian corporation to engage in basic exploration there, looking for non-ferrous minerals.

Q. What are the supply and demand figures for lead and zinc products worldwide?
A. The International Lead and Zinc Study Group estimated 1972 lead metal production at 3,755,000 tons and consumption at 3,677,000 tons; the excess was absorbed in commercial stocks. Zinc metal consumption of 4,788,000 tons exceeded free world production of 4,540,000 tons; the deficit was made up by imports from Russia and other socialistic countries as well as reductions in commercial stocks and GSA releases.

Q. What does the Government Services Administration program mean to St. Joe?
A. It reduces the stockpiles of strategic materials which the U.S. government built up after World War II and should be completed without ill effects on the various markets. Our industry is scheduled to buy for disposal at least 50,000 tons of lead and zinc each year, if the producers' stocks of these metals do not exceed a set limit. Since zinc is in such shortage right now, about 150,000 tons were disposed of last year. The limit for lead disposal, however, was renegotiated in January 1973, and none will be released in the first quarter.

Q. How does this affect earnings?
A. Not significantly. We are only paid for handling costs.

Fil E. Van Voris
Vice President-Sales

Q. What kind of growth potential does St. Joe have in its basic lines?
A. While lead and zinc as commodities have historically not had high rates of growth, in the U.S., 1972 zinc consumption was up about 14% over 1971 and lead up 3%. St. Joe must not only sell to the parts of the market that are growing most rapidly, such as zinc for the galvanizing industry and lead for batteries, but also develop its commodities into finished products that command higher profit margins. The 40% growth last year

"We are integrating direct selling, market development and product development through research more than ever before. I think marketing encompasses all these elements."

Fil E. Van Voris, 55, Vice President—Sales. Joined St. Joe in 1972. Previously project manager, marketing and development, Union Carbide Corp.

in our zinc oxide business is an example of how zinc metal can be upgraded into products with higher margins.

Q. What kind of marketing approach fits these needs?
A. We are integrating direct selling, market development and product development through research more than ever before. I think marketing encompasses all these elements.

Q. Is there any market area you are especially emphasizing?
A. Yes, we are very anxious to upgrade our galvanized zinc products. The zinc smelter at Josephtown is strategically located in the heart of the galvanizing market, and furnace-grade zinc products are the bread and butter lines of our business.

Q. What specific steps are you taking to improve profitability?
A. First of all, we are using a computerized management information system as a decision-making tool in marketing. It gives us product line and customer account profitability so we can make better managerial decisions. For example, this system helped us decide to go to a product pricing system for zinc metal rather than charging premiums over the Prime Western price.

Q. What is the future of the tetraethyl lead market?
A. The use of lead in gasoline, which improves engine efficiency and mileage, is still being extensively studied, and Environmental Protection Agency regulations, which would restrict the use of lead in gasoline, have not yet been finalized. The TEL market, which represents 6% of St. Joe's total sales, rose by 5% in 1972, and the realization is growing that eliminating lead from gasoline will cause a further crisis in the U.S. oil supply and even a possible rationing of gasoline.

Many experts maintain that there is no adverse impact on public health from lead oxide emissions. If the EPA accepts that conclusion, less-expensive systems than platinum catalyst converters—which are rendered inefficient by lead build-ups—could be utilized to control other emissions and retain lead. A more realistic time span, if granted, may permit the development of technologies that allow the use of lead in gasoline.

Q. What you say sounds promising, but if the EPA standards remain and lead is phased out of gasoline, how would you replace this important market?
A. If the worst does happen and we lose the TEL market gradually, the battery industry will certainly be the most important market to replace this lost tonnage. First of all, the lead-acid ignition battery market is growing between 5-10% per year, and this will take up some of the slack.

The other real hope also lies within the battery field and that is the lead-traction battery. Battery-powered vehicle use in off-the-road applications is growing at a great rate. For example, in-plant, fork-lift trucks and golf carts are two obvious applications. Research activity to develop an electric car has increased, and we feel this will continue. Battery-powered vehicle technology is improving and, if commercially successful, would have a significant effect on demand for lead.

Q. Have you made any changes in the sales force?
A. The only restructuring involved setting up the sales force by product lines instead of geographical areas. We are also trying to bring into the sales force people who are

"Even after the CanDel purchase, we have the financial resources to continue to look for future attractive acquisition situations."

R. V. Cronin, 49, Vice President and Treasurer. Came to St. Joe in 1971. Formerly president of Penick & Ford, Ltd., a subsidiary of R. J. Reynolds Industries.

highly qualified technically and can help in the merger of market and product development.

R. V. Cronin
Vice President and Treasurer

Q. How much debt does St. Joe have?
A. As of December 31, 1972, about $35 million in long-term debt, and $8 million in short-term debt. We have unused borrowing capacity.

Q. How are expenditures for environmental controls to be financed?
A. Our credit stands behind a $22.5-million issue of 5.6% revenue bonds issued by Beaver County Industrial Authority in Pennsylvania to be used to upgrade our Pennsylvania zinc smelter to meet existing environmental control laws.

Q. What are the advantages of these bonds for St. Joe?
A. The interest rate is at least two percentage points lower than normal corporate bonds would carry.

Q. This is in Pennsylvania. Can St. Joe arrange this kind of financing in Missouri?
A. A similar law, which just became effective, was passed in Missouri. We expect to finance environmental expenditures at Herculaneum in the same way.

Q. How was CanDel financed?
A. St. Joe was able to make the $47-million acquisition of CanDel through temporary short-term borrowing. The proceeds from the sale of Quemetco, together with a $20 million, three-year, bank revolving loan at the prime rate, covered $40 million of the $47 million, and normal cash flow took care of the balance. The short-term borrowing was then repaid. Even after the CanDel purchase, we have the financial resources to continue to look for future attractive acquisition situations.

Q. St. Joe has indicated that it might have a secondary public offering of CanDel stock. What would be done with the proceeds?
A. There are many possible avenues open to us. Some examples would be debt reduction, the financing of future acquisitions or additional oil and gas exploration.

Q. How is the sale of Quemetco handled in the financial statement?
A. Quemetco's results were reclassified in the 1972 and 1971 income statements, and reported as a single item for the after-tax effect of income from discontinued operations. However, the 1971 balance sheet remains unchanged.

Q. How is the CanDel goodwill amortized?
A. Our acquisition of CanDel produced $20,876,000 in goodwill, which will be amortized over a 40-year period at the rate of $522,000 per year.

Q. How does the company handle the remission of foreign dividends?
A. We record dividends as income only when we receive dollars in the U.S., or, in the case of Argentina, bonds which are payable in dollars.

Q. Why is St. Joe's effective corporate tax rate so low?
A. It is at 32%, in the normal range for companies like St. Joe who deplete their natural resource assets. Also, CanDel pays no Canadian federal taxes because of a substantial carry-forward credit. However, it is worthy of note that St. Joe paid $15,932,341 in total taxes to federal, state, and local governments in 1972—the federal income tax is only the most visible portion.

"St. Joe's decentralized management permits the company to be responsive to its employees—the relationship is not a distant one. Generations of the same family are working with St. Joe and our future will benefit from this kind of stability..."

John W. Hanselman, 40, Vice President—Administration. Joined St. Joe in 1966. Formerly with New York Telephone Co.

John W. Hanselman
Vice President-Administration

Q. St. Joe started a systematic investment service in October 1972. What does it mean to shareholders?
A. It provides the opportunity, particularly for small shareholders who buy in odd lots, to purchase additional shares of St. Joe at a reduced cost. This can be done by dividend reinvestment through our transfer agent. It also provides for additional optional cash investments.

Q. This year's annual meeting will be held in St. Louis instead of New York. What is the reason?
A. Outside of New York, the largest concentration of St. Joe shareholders is in the St. Louis area so it makes sense to tell our story in that part of the country. We will officially open our Brushy Creek mine at the same time, and will make a special effort to have our Missouri shareholders see that facility—just as we did in upstate New York when we opened the new mine there in 1971.

Q. What labor contracts are up for renewal in 1973?
A. We have one labor agreement with the United Steelworkers in the Balmat-Edwards Division terminating this summer.

Q. Can you give a breakdown of what happened to the employees of the Federal mine, which was shut down last year?
A. The division worked hard to avoid any layoffs, and a 1972 labor agreement, negotiated with the union, provided new benefits for employees affected by the closing of the Federal operation in the Old Lead Belt. About 150 elected to retire under the improved pension plan, a number obtained jobs in other St. Joe operations in the area, and the remainder are involved in salvage work in conjunction with closing the mine.

Q. Has St. Joe modernized its corporate benefits program?
A. We recently introduced a long-term disability program and upgraded our retirement, group insurance, major medical, and basic hospitalization benefits for salaried people.

Benefits and other employment conditions for hourly people vary from division to division, but they too compare favorably in the communities in which we operate.

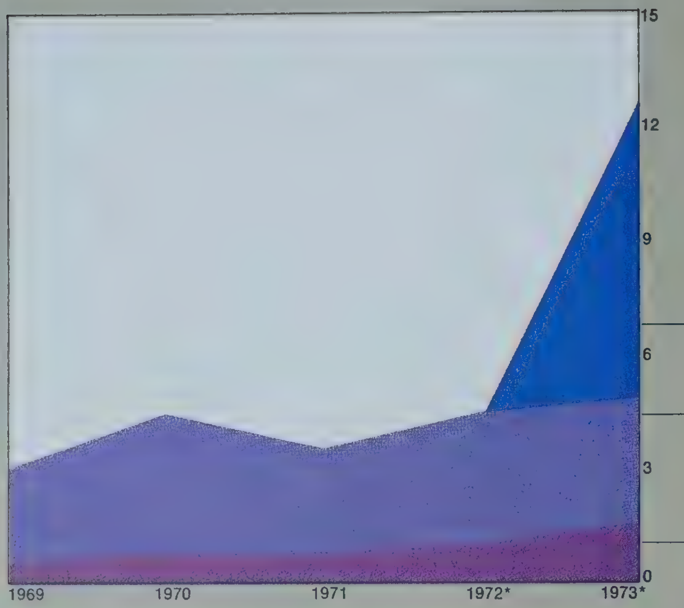
Q. How would you describe the company's relationship with its employees?
A. St. Joe's decentralized management permits the company to be responsive to its employees—the relationship is not a distant one. Generations of the same family are working with St. Joe and our future will benefit from this kind of stability, as well as from the new employee talents of our expanding scope of activities.

Q. How does St. Joe motivate its management?
A. Largely by giving our people a great deal of individual responsibility and freedom of decision in their areas of operation, both on the division level and in the corporate staff, within a framework of financial controls. This kind of structure offers challenge and satisfaction to a large number of employees and provides them with a broad voice in the management of St. Joe.

Q. Do you expect that this organization will continue as St. Joe grows in some new directions?
A. Yes. With a small corporate staff and decentralized operational responsibility, better decisions are made more quickly. I don't think our growth will change this.

St. Joe Oil/Gas and Mineral Exploration and New Product Research (1969-1973)

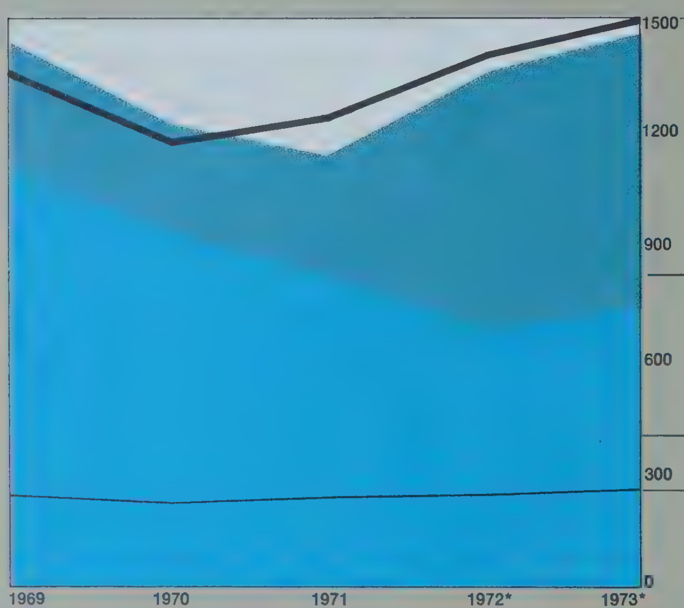
$ In Millions



***Reflects purchase of 93.6% of CanDel Oil Ltd., May 1972*

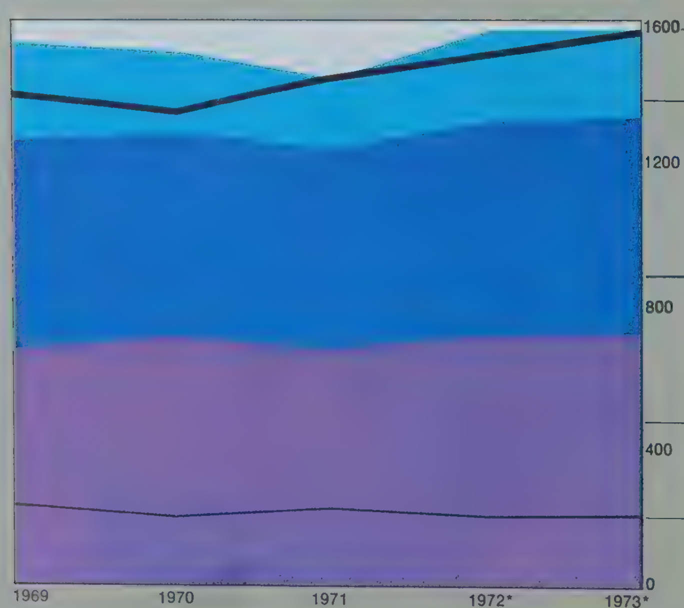
Zinc Production and Consumption (1969-1973)

Thousands of Short Tons



Lead Production and Consumption (1969-1973)

Thousands of Short Tons



**1972 and 1973 figures estimated.*

St. Joe Minerals Zinc Statistics in Short Tons

Year	Zinc Concentrate Produced From St. Joe Mines	Slab Zinc Equivalent of Production	Slab Zinc Equivalent Sold	Sulphuric Acid Sold
1962	104,080	153,968	152,258	189,866
1963	99,914	174,089	178,515	211,930
1964	117,473	193,444	211,731	243,920
1965	140,284	202,657	221,329	237,305
1966	147,860	216,910	214,189	252,987
1967	147,361	212,338	208,150	229,678
1968	146,139	233,454	244,883	287,594
1969	144,069	243,882	256,104	307,909
1970	142,143	219,975	227,718	273,956
1971	143,994	235,395	255,404	267,810
1972	142,129	235,649	284,294	262,954

St. Joe Minerals Lead Statistics in Short Tons

Year	Lead Concentrate Produced From St. Joe Mines	Lead and Lead Alloy Production	Lead Metal Equivalent Sold	Sulphuric Acid Sold
1962	86,375	77,156	112,857	—
1963	113,801	81,319	96,692	—
1964	170,704	117,643	125,177	—
1965	189,962	133,601	142,243	—
1966	189,225	118,354	175,762	—
1967	224,233	124,480	160,115	—
1968	262,079	175,717	210,172	—
1969	354,131	233,160	244,949	19,564
1970	318,420	206,343	190,759	53,210
1971	303,190	222,213	224,321	48,800
1972	312,662	207,877	223,230	54,844

St. Joe Share of Meramec Mining Company Statistics in Long Tons

Year	Iron Ore Pellets Production	Iron By-Products Production
1964	407,814	—
1965	791,439	—
1966	869,239	—
1967	900,683	—
1968	747,337	—
1969	774,663	—
1970	832,685	3,997
1971	835,796	7,875
1972	839,520	10,391

CanDel Oil Ltd.* Oil and Gas Liquids and Gas Production Statistics

Year	Oil & Gas Liquids Bbls.	Gas Production MCF
1963	1,070,000	21,785,000
1964	1,122,200	24,644,000
1965	1,310,900	24,958,000
1966	1,667,200	22,854,000
1967	2,447,200	26,107,000
1968	2,427,600	24,819,000
1969	2,276,200	25,398,000
1970	2,293,500	24,275,000
1971	2,123,200	24,156,000
1972	2,079,400	24,687,000

*93.6% owned by St. Joe Minerals Corporation

Consolidated Balance Sheet December 31, 1972 and 1971

Assets	1972	1971
Current Assets:		
Cash	$ 2,172,000	$ 2,575,000
Short-term investments, at cost approximating market	2,100,000	4,253,000
Trade accounts receivable, net of allowance for doubtful accounts (Note 6)	33,489,000	25,323,000
Inventories (Note 1):		
Lead, zinc, etc.:		
Finished metals	3,824,000	8,989,000
Metals in process and concentrates	13,277,000	16,724,000
Materials and supplies	8,818,000	10,046,000
Prepaid expenses and other current assets	2,955,000	1,975,000
Total Current Assets	66,635,000	69,885,000
Notes, Investments, and Advances:		
Subsidiaries not consolidated (Note 4)	899,000	899,000
Meramec Mining Company (Note 5)	12,570,000	13,014,000
Other, at cost	3,647,000	2,915,000
Total Notes, Investments, and Advances	17,116,000	16,828,000
Property—At Cost (Note 1):		
Mining properties and mineral rights	45,543,000	44,607,000
Petroleum and natural gas leases and rights, including exploration and development thereon	49,058,000	—
Land, buildings, plant and equipment	202,540,000	183,679,000
Mine development	22,005,000	18,134,000
Total	319,146,000	246,420,000
Accumulated depletion, depreciation and amortization	159,445,000	123,367,000
Property—Net	159,701,000	123,053,000
Deferred Charges	4,259,000	5,660,000
Other Assets—deposits, etc.	3,272,000	4,326,000
Goodwill (Notes 2 and 3)	20,528,000	1,212,000
Total	$271,511,000	$220,964,000

See notes to financial statements.

Liabilities and Shareholders' Equity	1972	1971
Current Liabilities:		
Notes payable (Note 6)	$ 7,356,000	$ 8,541,000
Accounts payable	18,598,000	11,389,000
Long-term debt due within one year (Note 7)	1,000,000	1,000,000
Accrued income taxes	5,152,000	1,263,000
Other accrued liabilities	1,207,000	1,181,000
Total Current Liabilities	33,313,000	23,374,000
Long-Term Debt (Note 7)	34,676,000	10,667,000
Deferred Federal Income Taxes (Note 1)	16,027,000	13,998,000
Reserves for Self Insurance	949,000	1,151,000
Minority Shareholders' Interest (Notes 2 and 3)	1,908,000	475,000
Shareholders' Equity (Note 8):		
Preferred Stock, par value $50 per share, 1,000,000 shares authorized; none issued		
Common Stock, par value $10 per share, 12,500,000 shares authorized; 9,188,406 shares issued (no change during two years)	91,884,000	91,884,000
Other Capital—representing principally excess of fair value of stock dividends over par value of Common Stock	19,281,000	19,281,000
Retained Earnings (Note 7)	88,967,000	75,707,000
Total	200,132,000	186,872,000
Common Stock in Treasury, at cost, 1972, 699,453 shares; 1971, 703,023 shares	(15,494,000)	(15,573,000)
Total Shareholders' Equity	184,638,000	171,299,000
Total	$271,511,000	$220,964,000

See notes to financial statements.

Statement of Consolidated Income
For the years ended December 31, 1972 and 1971

	1972	1971
Net Sales (Note 3)	**$205,042,000**	$162,214,000
Costs and Expenses:		
Cost of sales (exclusive of certain items below)	**152,563,000**	125,112,000
Administrative and selling (Note 2)	**7,690,000**	5,564,000
Research and exploration (Note 1)	**3,552,000**	2,635,000
Depletion, depreciation and amortization (Note 1)	**9,796,000**	6,885,000
Interest	**2,325,000**	1,030,000
Total Costs and Expenses	**175,926,000**	141,226,000
Income from Operations	**29,116,000**	20,988,000
Other Income:		
Dividends from unconsolidated subsidiaries	**4,174,000**	3,924,000
Royalty—Meramec Mining Company	**1,849,000**	1,862,000
Interest	**942,000**	834,000
Sundry—net (Note 3)	**67,000**	281,000
Income Before Income Taxes, Minority Interest, and Extraordinary Items	**36,148,000**	27,889,000
Income Taxes (Note 9)	**11,251,000**	8,313,000
Income Before Minority Interest and Extraordinary Items	**24,897,000**	19,576,000
Minority Interest	**127,000**	—
Income Before Extraordinary Items	**24,770,000**	19,576,000
Extraordinary Items (net of related income taxes—Note 3)	**1,229,000**	—
Net Income	**$ 25,999,000**	$ 19,576,000
Per Share—based upon average shares outstanding during each year (1972—8,487,652; 1971—8,455,528) (Note 8):		
Income before extraordinary items	**$2.92**	$2.32
Extraordinary items	**.14**	—
Net income	**$3.06**	$2.32

Statement of Consolidated Retained Earnings
For the years ended December 31, 1972 and 1971

	1972	1971
Retained Earnings at January 1	**$ 75,707,000**	$ 69,874,000
Net Income For the Year	**25,999,000**	19,576,000
Cash Dividends (1972, $1.50 per share; 1971, $1.625 per share)	**(12,732,000)**	(13,743,000)
Exercise of Stock Options (Note 8)	**(7,000)**	—
Retained Earnings at December 31	**$ 88,967,000**	$ 75,707,000

See notes to financial statements.

Statement of Changes in Consolidated Financial Position

For the years ended December 31, 1972 and 1971

	1972	1971
Funds Provided:		
Operations:		
Income before extraordinary items	$ 24,770,000	$19,576,000
Costs and expenses not requiring working capital:		
Depletion, depreciation and amortization (including operations sold) (Note 3)	10,292,000	7,419,000
Deferred income taxes	2,029,000	1,144,000
Other	570,000	86,000
Total From Operations Before Extraordinary Items	37,661,000	28,225,000
Extraordinary items (net credit), increased by items not requiring working capital of $12,797,000	14,026,000	—
Total From Operations	51,687,000	28,225,000
Proceeds from long-term debt	25,009,000	—
Stock options exercised	72,000	891,000
Minority interest arising from purchase of CanDel Oil Ltd.	1,781,000	—
Book value of property disposals	3,341,000	28,000
Other—net	3,022,000	(1,608,000)
Total Funds Provided	84,912,000	27,536,000
Funds Applied:		
Dividends	12,732,000	13,743,000
Additions to property:		
Acquisition of CanDel Oil Ltd.	32,538,000	—
Other	30,955,000	21,240,000
Goodwill arising from the purchase of CanDel Oil Ltd.	20,876,000	—
Reduction of long-term debt	1,000,000	1,000,000
Total Funds Applied	98,101,000	35,983,000
Decrease in Working Capital*	$(13,189,000)	$ (8,447,000)
Increases (Decreases) in Working Capital:		
Cash and short-term investments	$ (2,556,000)	$ (9,444,000)
Trade accounts receivable	8,166,000	1,346,000
Inventories	(9,840,000)	(4,924,000)
Prepaid expenses and other current assets	980,000	430,000
Notes payable	1,185,000	2,029,000
Accounts payable	(7,209,000)	2,128,000
Accrued income taxes	(3,889,000)	(77,000)
Other accrued liabilities	(26,000)	65,000
Decrease in Working Capital	$(13,189,000)	$ (8,447,000)

*The net assets of CanDel Oil Ltd., acquired in 1972, in addition to property, goodwill, and minority interest set forth above, included a working capital deficit of $4,772,000

See notes to financial statements.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Principles of consolidation—The accompanying consolidated financial statements include the accounts of the Corporation and all subsidiaries except those operating in South America (see Note 4). All significant intercompany transactions and balances are eliminated.

Foreign currency translations—Local currency accounts of consolidated foreign subsidiaries (Canadian, principally CanDel Oil Ltd.—see Note 2) are translated into U.S. dollars at appropriate rates of exchange. Resulting translation gains and losses are not significant and are reflected in net income. The accompanying financial statements for 1972 include total assets of $38,500,000 and revenues of $6,183,000 attributable to continuing foreign operations. The comparable amounts for 1971 are not significant.

Goodwill—Goodwill arising from acquisitions is amortized over forty years from acquisition dates.

Investments—The companies show current and non-current investments (except those mentioned in Notes 4 and 5 below) at cost.

Inventories—Metal inventories are stated at the lower of cost (principally LIFO) or market; materials and supplies are stated at the lower of average cost or market.

Exploration—Mineral exploration expenditures are deferred pending decision as to success or abandonment of projects. If successful, expenditures are capitalized as mine development; the cost of projects abandoned is charged to income.

CanDel Oil Ltd. follows the full cost method of accounting for exploration and development of oil and gas reserves. Under this method, land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells and overhead expenses directly related to exploration activities are capitalized and depleted on a composite unit-of-production method based on estimated recoverable reserves as determined by CanDel's engineers.

Property—Buildings, plant and equipment used in mineral operations are depreciated principally on the straight-line method over their estimated service lives (ranging from 3 to 33 years). Mining properties and mineral rights, oil and gas leasehold equipment, gas processing plants and pipeline facilities are depreciated and depleted on the unit-of-production basis. Mine development expenditures are amortized on the straight-line method over 20 years.

Upon disposal of depreciable assets, their cost and related accumulated allowance accounts are cleared from the accounts and the resultant profit or loss is reflected in income.

Substantially all surface mine development expenditures are capitalized together with initial underground installations; subsequent maintenance and expenditures for underground development, including additional necessary equipment and supplies, are charged to expense. Maintenance and repair expenditures on buildings, plants, and equipment are charged to expense as incurred; major renewals and betterments are capitalized.

Pension plan costs—The Corporation and its subsidiaries have several pension plans (principally non-contributory) covering substantially all of their employees. Pension costs are generally funded as accrued, and accrual is made for normal cost and amortization of prior service costs over a thirty-year period.

Income Taxes—Deferred Federal income taxes are provided for timing differences between financial income and Federal taxable income, relating principally to accelerated depreciation and write-off for tax purposes of mine development expenditures as incurred. See also Note 9 with respect to practice followed by CanDel Oil Ltd.

Deferred Federal income taxes on undistributed earnings of consolidated foreign subsidiaries ($1,856,000 at December 31, 1972, not significant in prior year) are not provided since it is expected that such earnings will be reinvested by such subsidiaries.

Investment tax credits are applied as reductions of Federal income tax provisions in the years earned.

2. Acquisition of CanDel Oil Ltd.

In May 1972 the Corporation acquired 93.6% of the capital stock of CanDel Oil Ltd. from Sohio Petroleum Company for $46,928,000 in cash and notes payable. CanDel is a Canadian corporation engaged in the exploration and production of oil and gas, principally in western Canada.

The acquisition is being accounted for as a purchase and, accordingly, the operations of CanDel are included in the accompanying consolidated financial statements from May 1, 1972. The excess of acquisition cost over the value of net assets acquired, $20,876,000, was assigned to goodwill and is being amortized over a forty-year period. Amortization for 1972 is $348,000 and is included in administrative and selling expenses.

On a pro forma basis including data for CanDel for the entire periods, consolidated net sales for the years ended December 31, 1972 and 1971 would have been $208,175,000 and $171,255,000, respectively; net income for 1972 and 1971 would have been $26,270,000 ($3.09 per share) and $20,699,000 ($2.45 per share) respectively.

3. Extraordinary Items and Discontinued Operations
During 1972 the Corporation sold the capital stock of two wholly-owned subsidiaries, Quemetco, Inc. (for $20,000,000 in cash and a $2,000,000 note receivable due in 1977—subject to adjustment as set forth below), and Lead Belt Water Company (for $1,400,000 in cash), and incurred shutdown costs in closing a mining operation. These transactions resulted in the following extraordinary items for the year ended December 31, 1972:

Gain on sales of the capital stock of Quemetco, Inc. and Lead Belt Water Company, net of income taxes of $801,000	$1,689,000
Shutdown costs in closing a mining operation, net of income tax benefit of $425,000	(460,000)
Extraordinary items—net	$1,229,000

The Corporation remains contingently liable as guarantor of Quemetco's leases of certain of its plants, under which rental payments approximate $315,000 per year for the initial lease term ending in 1997. RSR Corporation, the purchaser of Quemetco, Inc., has agreed to indemnify the Corporation against any loss suffered as a result of such contingent liability.

On February 12, 1973, RSR Corporation commenced an action against the Corporation in the United States District Court in Dallas, Texas. The complaint alleges that many of the representations and warranties made by the Corporation in its stock purchase agreement with RSR were false and misleading, in violation of the federal securities acts, and constituted misrepresentation, fraud and breach of warranties at common law, and also alleges that there should be a downward adjustment in the purchase price pursuant to an adjustment formula in the purchase contract. The complaint asks for damages in a sum slightly in excess of $6 million and exemplary damages of $1 million. On the basis of a preliminary review of the complaint, management believes the Corporation has meritorious defenses to the allegations, and it intends vigorously to defend the action.

The net income (loss) from operations of the two subsidiaries sold, $44,000 ($.01 per share) in 1972 and ($146,000) ($.02 per share) in 1971, is included in sundry other income—net in the accompanying statement of consolidated income. Net sales attributable to these subsidiaries were $34,469,000 in 1972 and $32,137,000 in 1971. The consolidated balance sheet at December 31, 1971 includes the following amounts relating to the subsidiaries sold: Current assets, $10,159,000; property, $8,035,000; goodwill, $1,212,000; other assets, $243,000; current liabilities (excluding intercompany amounts), $3,598,000; and minority interest, $475,000.

4. Subsidiaries Not Consolidated
The Corporation's South American subsidiaries operate in Argentina (Compañia Minera Aguilar, S.A., 99% owned) and Peru (Compañia Minerales Santander, Inc., 98% owned). The former is carried in the consolidated balance sheet at nominal value, and the latter is carried at cost which is substantially below equity.

5. Meramec Mining Company
Meramec Mining Company is owned equally by St. Joe Minerals Corporation and Bethlehem Steel Corporation. The Corporation includes 50% of Meramec's income and expenses in its operating results for both book and tax purposes; the investment shown for Meramec in the consolidated balance sheet comprises principally the Corporation's share of Meramec's property, less accumulated depreciation and amortization thereon computed on the straight-line method over estimated service lives.

6. Notes Payable
Notes payable at December 31, 1972 include CanDel's notes of $4,356,000 of which $3,716,000 are secured by CanDel's accounts receivable ($3,175,000 at December 31, 1972) and $640,000 by the assignment of interest in certain producing properties of CanDel.

7. Long-Term Debt
Long-Term debt at December 31, 1972 and 1971 comprises the following:

	1972	1971
4½% notes payable to Bethlehem Steel Corporation, due March 31, 1984 (a)	$10,667,000	$11,667,000
Notes payable to banks, at prime rate (6% at December 31, 1972) (b)	20,000,000	
Liability with respect to 5.6% pollution control revenue bonds, due December 1, 1997 (c)	5,009,000	
Total	35,676,000	11,667,000
Less current portion—4½% notes payable expected to be paid within one year (a)	(1,000,000)	(1,000,000)
Long-Term Debt	$34,676,000	$10,667,000

(a) The agreement underlying the notes payable to Bethlehem Steel Corporation provides for the acceleration of maturity of the notes upon the occurrence of certain specified events. Under its Credit Agreement with Bethlehem Steel Corporation, St. Joe has assigned royalties to be received from Meramec Mining Company, up to $1,000,000 annually, as collateral security for the notes.

(b) The notes payable to banks were issued under a credit agreement whereby the banks agreed to make loans to the Corporation up to $20,000,000 to December 15, 1975. The agreement, among other things, contains restrictions relating to maintenance of minimum working capital, payment of dividends, additional indebtedness, and purchases by the Corporation of its own stock. At December 31, 1972 unrestricted consolidated retained earnings were $23,139,000.

(c) In 1972, Beaver County Industrial Development Authority sold $22,500,000 of 5.6% Pollution Control Revenue Bonds to provide funds for the construction of pollution control facilities at the Corporation's zinc smelter near Monaca, Pennsylvania. The Bonds are due December 1, 1997; however, they are subject to optional redemption commencing December 31, 1982, and to mandatory redemption in accordance with sinking fund provisions under the Indenture, commencing December 1, 1988. The Authority and St. Joe have entered into an Installment Agreement whereby St. Joe is unconditionally obligated to make payments to the Trustee sufficient (together with other available funds) to pay all amounts due on the Bonds. Title to the project remains with the Authority until the Bonds are fully paid.

For accounting purposes, the pollution control facilities are capitalized and depreciated, and the Bonds are shown as long-term debt in the consolidated balance sheet. The debt at December 31, 1972 represents the amount of proceeds from the sale of Bonds applied to construction payments; the balance of the proceeds are held and invested by the Trustee pending disbursement and, if not applied toward construction payments, are available to service the debt.

8. Stock Option Plans

Under the Corporation's qualified Stock Option Incentive Plans adopted in 1958 and 1967, key management employees may be granted options to purchase the Corporation's common stock at 100% of the market price on the day the options are granted. Options granted under the 1967 Plan become exercisable at the rate of 25% each year beginning with the second year after the date of grant. Options granted under the 1958 Plan and not exercised by September 14, 1971 expired on that date.

On May 8, 1972, shareholders approved a non-qualified Stock Option Plan which reserved 200,000 shares of the Corporation's common stock for the granting of options to its key employees. Options granted under this Plan are exercisable at prices which may be less than fair market value but not less than par value at date of grant, and expire ten years from date of grant. No options have been granted under this Plan.

A summary of the changes in the number of shares under option under the qualified Plans during 1972 and 1971 follows:

	Number of Shares	
	1972	1971
Options outstanding at beginning of year	127,601	142,005
Granted	37,830	57,404
Exercised	(3,570)	(54,188)
Cancelled or expired	(13,730)	(17,620)
Options outstanding at end of year	148,131	127,601

Shares under option at December 31, 1972 are exercisable at prices of $17.00 to $34.50 per share.

The number of shares reserved for the granting of additional options under all plans amounted to 456,525 at December 31, 1972.

Treasury stock has been reduced by $79,000 (3,570 shares) in 1972 and $1,200,000 (54,188 shares) in 1971 for the cost of treasury shares issued upon exercise of stock options. The excess of such cost over the aggregate option price has been charged to retained earnings in 1972 ($7,000) and other capital in 1971 ($310,000) in accordance with a policy, adopted in 1972, whereby such debits are charged to other capital only to the extent that prior net credits from the same transactions are available in other capital; credits arising from exercise of stock options are credited to other capital. Prior to 1972 the difference between cost of treasury shares issued and stock option proceeds was recorded in other capital.

CanDel Oil Ltd. has an Employees' Stock Option Plan whereunder 200,000 shares (approximately 5% of CanDel's outstanding shares) are reserved for issuance to its officers and employees. As of December 31, 1972, options have been granted (none exercised) to purchase 141,650 shares at prices ranging from $8.75 to $11.25 per share, representing the market prices at the dates the options were granted.

The dilution in per share earnings which could arise from exercise of stock options is not material.

9. Income Taxes

Taxes on income comprise the following:

	1972	1971
Federal:		
Current	$ 8,424,000	$6,391,000
Deferred	2,029,000	1,144,000
State	798,000	778,000
Total	$11,251,000	$8,313,000

The provisions for Federal income taxes are affected by tax benefits (which may fluctuate from year to year) relating principally to statutory depletion, foreign tax credits and investment tax credits. Investment tax credits were $887,000 and $33,000 in 1972 and 1971, respectively.

For Canadian tax purposes, CanDel Oil Ltd. expenses sufficient exploration, development and lease acquisition costs to eliminate taxable income. No provision has been made for deferred income taxes resulting from expensing these costs for tax purposes in excess of amounts expensed for book purposes since the company, in common with many other companies in the Canadian oil and gas industry, considers tax allocation with respect to these items in Canada not appropriate. If tax allocation had been followed for all differences in the timing of such deductions for tax and accounting purposes, the provision for deferred income taxes in the accompanying consolidated financial statements for 1972 would have been increased by $628,000, and net income (after deduction of minority interest) would have been decreased by $588,000 ($.07 per share).

At December 31, 1972, approximately $20,000,000 of expenses charged on CanDel's tax return (exploration, development and lease acquisition costs, and unclaimed capital cost allowances) remain to be carried forward and applied against future taxable income of CanDel.

10. Pension Plan

Aggregate unfunded prior service pension cost of the companies was $1,616,000 at December 31, 1972. Pension expense for all plans, including amortization of prior service costs over thirty years, was $1,798,000 in 1972 and $1,933,000 in 1971. The actuarially computed value of vested benefits does not exceed total pension funds at December 31, 1972.

Accountants' Opinion

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

To the Shareholders of St. Joe Minerals Corporation:

We have examined the consolidated balance sheet of St. Joe Minerals Corporation and consolidated subsidiaries as of December 31, 1972 and 1971 and the related statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of CanDel Oil Ltd., a consolidated subsidiary, which statements reflect total assets and revenues constituting 13% and 3%, respectively, of the related consolidated totals for 1972. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for CanDel Oil Ltd., is based solely upon the report of the other auditors.

In our opinion, based upon our examination and the report of other auditors and subject to adjustment, if any, upon final determination of the proceeds from the sale of Quemetco, Inc.—see Note 3 to financial statements, such financial statements present fairly the financial position of St. Joe Minerals Corporation and consolidated subsidiaries at December 31, 1972 and 1971 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Haskins & Sells

February 16, 1973

St. Joe Minerals Corporation

Incorporated March 25, 1864, under the laws of the State of New York. Corporate Office: 250 Park Avenue, New York, N.Y. 10017 (212) 953-5000

CORPORATE OFFICERS

Lawrason Riggs III
Chairman of the Board

John C. Duncan
President and Chief Executive Officer

D. Broward Craig
Executive Vice President

R. V. Cronin
Vice President and Treasurer

John W. Hanselman
Vice President—Administration

Peter B. Nalle
Vice President—Mining

L. Chase Ritts Jr.
Vice President—Petroleum

Joseph G. Sevick
Vice President—Smelting

Fil E. Van Voris
Vice President—Sales

Leroy K. Wheelock
Vice President

James L. Broadhead
Secretary

Henry J. Adams
Comptroller

CORPORATE EXPLORATION

Thomas N. Walthier
Director—Corporate Exploration

Edgar R. Lea
Manager of Explorations

Robert I. Ginn
Manager—St. Joseph
Exploration, Ltd.

DIVISION MANAGERS

Mines
Lawrence W. Casteel, Bonne Terre, Missouri
Marvin E. Lane, Balmat, New York

Smelters
Charles D. Henderson, Monaca, Pennsylvania
John W. Sherman, Herculaneum, Missouri

AFFILIATE AND SUBSIDIARY EXECUTIVES

Cia. Minera Aguilar, S.A.
Wing L. Lew, Executive Vice President
John E. Loser, Managing Director

Cia. Minerales Santander, Inc.
Robert P. Steele, Vice President and General Manager

Meramec Mining Company
Robert G. Peets, Manager

CanDel Oil Ltd.
Smiley Raborn Jr., President and Chief Executive Officer

GENERAL COUNSEL
Debevoise, Plimpton, Lyons & Gates
299 Park Avenue, New York, N.Y. 10022

TRANSFER AGENT AND REGISTRAR
Bankers Trust Company
16 Wall Street, New York, N.Y. 10015

AUDITORS
Haskins & Sells
Two Broadway, New York, N.Y. 10004

STOCK TRADING
The stock of St. Joe Minerals Corporation is traded on the New York, Midwest and Pacific Coast stock exchanges. Its symbol is SJO.

ANNUAL MEETING
The annual meeting of the Corporation will be held on May 14, 1973, at 2 P.M. at Bel Air East, St. Louis, Missouri.

St. Joe Minerals Corporation is an equal opportunity employer.


St. Joe Minerals Corporation, 250 Park Avenue, New York, N.Y. 10017